

VOLUNTARY, OCCUPATIONAL PENSIONS

Occupational pension schemes, voluntarily provided by employers, are common in many OECD countries. This section shows detailed results on the value of these pension entitlements for four countries: Canada, Denmark, the United Kingdom and the United States. These four countries were chosen for three reasons. First, coverage of occupational pensions is broad: around one third of employees in Canada, a little under half in the United Kingdom and the United States and around 80% in Denmark.¹ Secondly, occupational pensions play an important role in providing retirement incomes. Thirdly, data are available on the rules and parameters of different employers' plans for these countries.^{2, 3}

The analysis of the four countries that follows is presented in the same format as the country studies that discuss mandatory pension systems. These provide detailed descriptions of the rules and parameters chosen for the representative pension plan and the justification for that choice. The table below offers a cross-country summary of these provisions for the three countries where defined-benefit pension systems have been modelled. In Denmark, occupational pensions are of the defined-contribution type.

It is also important to note that defined-benefit occupational plans often have more generous rules for age of retirement than do national programmes. For comparison with other countries and with the results of mandatory pensions only, it is again assumed that people retire at the normal pension age of the public scheme. In practice, earlier retirement will result in lower benefits because of the smaller number of years over which pension accrues.

Parameters and rules for defined-benefit occupational pensions

	Canada	United Kingdom	United States
Earnings measure	Final salary (70%)	Final salary (95%)	Final salary (55%)
Vesting	5 years' service	2 years' service	5 years' service
Pension age	65	65	65 (47%)
Accrual rate	2% a year (70%)	1.25% a year (65%)	1.5% a year
Integration method	1.3% accrual up to public ceiling	–	–
Pre-retirement preservation	None	Price inflation	None
Post-retirement benefit adjustment	Half price inflation	Price inflation	None

Notes

1. See OECD (2001), Table 6.2 and Johnson (1998), Table 3.3.
2. The data for Canada come from OECD (1995). For the United Kingdom, data are drawn principally from the National Association of Pension Funds annual survey. The Government Actuary's survey is published with a huge delay, with 1995 data only available in 2001. Disney and Whitehouse (1994, 1996) provide simulations of pension entitlements for a range of different scheme rules and parameters. Data for the United States come mainly from Mitchell and Dykes (2000), which is based on a survey of schemes by the Department of Labor; see also Department of Labor (1999).
3. In other countries with broad coverage of occupational pensions – such as Germany, Japan and Switzerland – there have been no surveys of employer pension plans. It is impossible, therefore, to model with any degree of certainty the rules of a “typical” scheme.

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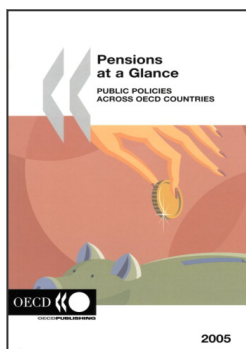
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